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UNCLAS VIENNA 001026

SIPDIS

STATE FOR EUR/AGS
TREASURY FOR OASIA/ICN/VATUKORALA
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E.O. 12958: N/A

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SUBJECT: Austro-Hungarian Stock Exchange Alliance

Summary

1. An Austrian consortium, led by the Vienna Stock Exchange (VSE), has acquired a majority share in the Budapest Stock Exchange (BSE). The VSE aims to form a broader "Central European Stock Exchange" alliance, including the VSE, BSE, and stock exchanges in Warsaw, Prague, Bratislava, Ljubljana, Bucharest, Sofia and Zagreb. The VSE's strategy complements the expansion of Austrian banks, insurance companies and other financial service providers into the new EU member states and other countries in Central, Eastern and Southeastern Europe.
End Summary.

Towards a "Central European Stock Exchange"

2. On March 22, the EU Commission approved the acquisition of a majority stake in the Budapest Stock Exchange (BSE) by a consortium of Austrian and Hungarian investors, led by the Vienna Stock Exchange (VSE). Since May 2004, the VSE has held a 14% stake in the BSE. A consortium of Austrian and Hungarian investors (Erste Bank, Raiffeisenzentralbank, Austrian Kontrollbank, and HVB Bank Hungary, a Bank Austria Creditanstalt subsidiary) holds an additional 54.8% share. The VSE's goal is to forge a strong alliance to benefit from the growth potential of the capital markets in Hungary and other Central and Eastern European (CEE) states.

3. Stefan Zapotocky, VSE Board Member, proclaimed Brussels' approval "a milestone and clear commitment to the goal of creating harmonized and efficient capital markets in a Europe of regions." Attila Szalay-Berzeviczy, the BSE Chairman, characterized the alliance as "a boost for the entire Central European capital market."

4. The acquisition of the BSE is part of the VSE's eastward expansion strategy. The VSE and the BSE have announced their intention to bid for the Warsaw Stock Exchange, the largest stock exchange in the new Member States, if the Polish Government privatizes it. In this scenario, the VSE and the BSE would form an alliance with the Warsaw Stock Exchange, which later could include stock exchanges in Prague, Bratislava, and Ljubljana, and eventually also Bucharest, Sofia and Zagreb - "a Central European Stock Exchange."

Strong Austrian Financial Presence in CEE

5. The VSE's expansion into CEE mirrors the increasing presence of the Austrian banking and financial sectors in the region over the last 15 years. Following restructuring, privatization, and market liberalization, the majority of banks in CEE are now private and the market share of foreign-controlled banks in CEE is about 70%. According to an Austrian National Bank estimate, Austrian banks hold approximately 22% of total assets in CEE banks (excluding Russia). All major Austrian banks are active in CEE. 30% of Austrian insurance companies' profits come from business in the region.

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